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SENSITIVE

STATE FOR WHA, WHA/CEN, AND EB/CBA
GUATEMALA FOR COMATT: DTHOMPSON

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SUBJECT: ADVOCACY CASE: GOVERNMENT TURNAROUND LEADS TO AES
CONTRACT FOR 200 MW STARTING IN THREE YEARS

REF: a) 01 TEGUCIGALPA 2872

- b) TEGUCIGALPA 02207
- c) TEGUCIGALPA 02857
- d) TEGUCIGALPA 03184
- e) TEGUCIGALPA 3273
- f) TEGUCIGALPA 3416

11. (SBU) Summary. AES Honduras signed a contract on December 27 with the state-owned electricity company ENEE to provide 200 MW of electricity starting within three years. The deal came after the ENEE Board of Directors annulled the tender award to Lufussa on December 19. In an emergency meeting on December 20, the Council of Ministers authorized the ENEE to sign direct purchase agreements for a total of 410 MW with the companies who made the best offers based on price and quality. Lufussa also reportedly signed a 210 MW contract earlier in the week. Embassy wished to thank Washington agencies for their strong support during this hard-fought advocacy effort. End summary.

12. (SBU) AES' local representative reported that on December 27 AES Honduras signed a deal with the state-owned electricity company ENEE for 200 MW. AES chose to begin providing electricity within 36 months, allowing it to operate the plant with natural gas from the beginning. The ENEE refused to consider standard clauses used in international financing with multilaterals like the International Finance Corporation or the Interamerican Development Bank. The local AES representative reported that despite the omission of the standard clauses, the contract provides enough flexibility to complete the USD 600 million investment. Honduran energy company Lufussa also signed a contract for 210 MW with 24 months COD earlier in the week. We understand that the contracts would go to the National Congress for approval on January 27.

13. (SBU) The deals came after the Council of Ministers held an emergency meeting on December 20, a day after the ENEE Board of Directors unanimously agreed to annul the public tender for the 210 MW electricity contract, to discuss what to do about the bid. The ENEE Board annulled the bid over concerns that the legal challenges to the decision to award the 210 MW contract to Lufussa would tie up the bid contract in the courts for years, impede the creation of new capacity and ultimately lead to a potential national energy crisis in 2004 (ref's e & f). The government has not acknowledged any flaws in the tender process.

14. (U) Following the meeting, the Council of Ministers sent instructions to the ENEE to arrange direct contracts for the original 210 MW contemplated in the bid and an additional 200 MW for demand growth. Minister of the Presidency Luis Cosenza announced to the press that the contracts would be signed with the bidders who made the best offers, based on quality and price, in the original public tender.

15. (SBU) Embassy would like to thank Washington agencies for their support throughout. Advocacy by then Assistant Secretary of WHA Otto Reich, Commerce Secretary Donald Evans

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and Under Secretary for Economic Affairs Alan Larson, all expressing their interest in a fair and transparent bid process, were especially helpful.

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